

Seattle University Center for Environmental Justice and Sustainability

2016-2017 CEJS Fellow Mid-year Report

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Project Title: The Role of CSR Information Characteristics in Investor Decisions

Project description:

Investors increasingly demand concise, comprehensive, credible, and comparable CSR information. This study examines how investors balance and process these information characteristics in investment decisions. The wide scope of CSR reporting includes diagnostic items predictive of outcomes and non-diagnostic items a priori irrelevant to performance. Based on cognitive psychology research, we posit that investors will favor comprehensive CSR information of related diagnostic and non-diagnostic items grouped together over concise CSR information of uncategorized diagnostic items (i.e., the chunking effect); and comprehensive CSR information of individuated items over concise CSR information of undifferentiated diagnostic items (i.e., the dilution effect). Further, supplemental CSR disclosures vary broadly in terms of performance benchmarks used and assurance purchased. Following financial information acquisition research suggesting that investors are averse to cognitive dissonance and so seek additional information that supports a prior position (i.e., confirmation effect), and are willing to forego some credibility to find such support (i.e., substitution effect), we propose that investors will judge as more useful comparable, preference-consistent over credibility-enhanced CSR information. Finally, the information-processing framework suggests that investors evaluate then weight financial information in their decisions. Modifying this framework for the CSR context, we expect that investors' usefulness judgments of comprehensive CSR information will vary with CSR relevance and reliability assessments, which will influence CSR performance appraisals, which in turn will impact stock price estimates and investment allocations. Results from a web-based, mixed-design experiment are consistent with these expectations and suggest that these CSR information characteristics ultimately affect investor decisions. These findings provide support for greater CSR disclosures, and highlight the need to understand how users balance and process characteristics of CSR and other nonfinancial information.

Activities and progress to date:

Winter 2016 – presented preliminary findings at an invited workshop at Portland State University

Spring 2016 – fine-tuned the analyses and drafted a working paper

Summer 2016 – co-author presented the paper at the American Accounting Association's Annual Meeting

Fall 2016 – revised the working paper and circulated it to private readers

Winter 2017 – presented at the CEJS Brown Bag Session and revised working paper based on comments

Plan for the remainder of the year:

Winter 2017 – meet with CSR information professionals (e.g., CSRHUB, Caesar's Entertainment, etc.) to identify additional outlets to share our findings and potential collaborations that can leverage our findings

Spring 2017 – circulate the working paper to more private readers, revise, and submit to the target journal

Summer 2017 – await and respond to feedback from target journal submission